City of Saint Paul Neighborhood Stabilization Program 2 (NSP2) American Recovery and Reimbursement Act of 2009

NSP2: Proposed Uses of Funds and Target Geography

The City of Saint Paul (City) intends to apply for grant funds through the Neighborhood Stabilization Program 2 (NSP2) under the American Recovery and Reimbursement Act of 2009.

This summary statement includes information regarding the proposed target geography, the proposed budget, and the proposed uses of the funds. This document has also been posted on the City's website at www.stpaul.gov/nsp. Copies of this document are available by calling 651-266-6658. Persons with questions about this document may call Joe Musolf at 651-266-6594 or Tom Sanchez at 651-266-6617 for additional information.

The City will accept comments concerning this proposed NSP2 plan summary from 17 June 2009 through 29 June 2009. Written comments may be mailed to Joe Musolf, 1200 City Hall Annex, 25 West Fourth Street, Saint Paul, MN 55102 or emailed to joe.musolf@ci.stpaul.mn.us. In addition, the City will accept comments in person at a public hearing scheduled for Thursday 25 June 2009 from 3:00 to 5:00 pm in Room 1307 of the City Hall Annex.

The City will submit the application for NSP2 funding to the United States Department of Housing and Urban Development (HUD) on July 17, 2009.

I. Background on NSP2

NSP2 is an allocation of funds provided under the American Reinvestment and Recovery Act of 2009 (Public Law 111-005) (Recovery Act) for additional activities under Division B, Title III of the Housing and Economic Recovery Act of 2008 (Public Law 110-289) (HERA), as amended, for the purpose of assisting in the redevelopment of abandoned and foreclosed homes.

Recipients will use funds awarded under this program to stabilize neighborhoods whose viability has been and continues to be damaged by the economic effects of properties that have been foreclosed upon or abandoned.

Applicants will compete for up to \$1.93 billion of NSP2 funds to carry out neighborhood stabilization programs. HUD will select NSP2 programs that integrate the following principles: retain Community Development Block Grant distinctive requirements; target and reconnect neighborhoods with the economy, housing market and social network of the community; rapidly arrest decline; assure compliance with NSP "deep targeting" requirement that no less than 25% of the funds be used to benefit individuals and families at or below 50% of the area median income; ensure longest feasible continued affordability; support projects that optimize economic activity and number of jobs created or retained or that will provide other long-term economic benefits; coordinate planning and resources; leverage resources and remove destabilizing influences; set aggressive, but achievable goals; and ensure accountability.

II. Proposed Target Geography

Figure 1 defines the census tracts which will be defined as "target geography" in the Saint Paul NSP2 program. The target geography is the specific geography where the NSP2 program activities will be carried out. The Saint Paul target geography selected both (1) maximizes the average HUD "need score" to assure a competitive application,

and (2) holistically builds upon and leverages the success of recent and current neighborhood stabilization efforts undertaken by the City and its Housing and Redevelopment Authority (HRA). A more detailed explanation of these two points follows:

- (1) HUD has provided two foreclosure related "need scores" at the census tract level, one that is based on the estimated number and percentage of foreclosures and another that combines estimated foreclosure rate with vacancy rate. Both scores rank need from 1 to 20, with 20 being census tracts with the HUD-estimated greatest need. At a minimum, the proposed target geography must score an average of 18 using the higher of the two indices for each census tract in the program. The census tracts in the proposed Saint Paul target geography, as illustrated in Figure 1, have an average needs score of 19.4. Only those census tracts that scored either 19 or 20 on either index were chosen.
- (2) Figure 2 illustrates the overlaps between the proposed NSP2 target geography and two significant recent and current neighborhood stabilization efforts undertaken by the City and its HRA: (a) the Invest Saint Paul (ISP) Initiative, and (b) an earlier round of HUD-funded Neighborhood Stabilization Program (NSP1) activities. These overlaps are significant because the establishment of the two previous program areas was based upon similar demonstrated geographic need indicators (see Figure 3), and because this overlap will allow the City to continue to carry out and build upon these ongoing activities. A more detailed explanation of these two efforts follows:
 - a. Through strategic revitalization strategies, the ISP Initiative will leverage an estimated \$66,990,000 of public and private resources to four larger neighborhoods and four more concentrated focus areas (see Figure 2) which are disproportionately affected by recent economic and social downturns and persistent disinvestment. This work includes: organizational support and community outreach; rehabilitation; mortgage financing and incentives; strategic property acquisition; neighborhood commercial corridor revitalization; and some large redevelopment projects. For more information see www.stpaul.gov/isp.
 - b. Current NSP1 activities underway are funded by a direct award of \$4.3 million from HUD and an additional award of \$4.5 million through the Minnesota Housing Finance Agency. Figure 2 illustrates the overlap between the proposed NSP2 target geography and a subset of the NSP1 activity area. This sub-geography (defined in NSP1 as "market destabilization" and "market collapse" areas) is currently the focus of such activities as: acquisition; rehabilitation; demolition; deconversion of housing back to single-family; land-banking; financial incentive tools; and a strong marketing partnership with lenders and realtors. For more information see www.stpaul.gov/nsp.

III. Proposed NSP2 Activities and Budget

Within the Saint Paul target geography, the City proposes to use NSP2 funds to rapidly arrest the decline, then stabilize these neighborhoods and position them for a sustainable role in a revitalized community. Measurable short term program outcomes will include, but not be limited to: arresting decline in home values based on average sales price in targeted neighborhoods; and reducing or eliminating vacant and abandoned residential property in targeted neighborhoods. The long term outcomes may include, but are not limited to: increased sales of residential property in targeted neighborhoods; and increased median market values of real estate in targeted neighborhoods.

The City will undertake the following activities in the following approximate quantities during the first three years of NSP2:

- (1) Acquisition: 400 homes
- (2) Rehabilitation: 300 homes
- (3) Demolition of blighted structures: 100 homes
- (4) Land-bank vacant lots for future re-use: 100 parcels
- (5) Provide financial incentives to buyers: for 300 buyers

It is anticipated that program income will be generated via sales of rehabilitated homes and developable lots. Therefore, a portion of NSP2 funds will be available for reuse in future years. The above quantities of activity are for the first three years of the proposed program. The full application will outline projected total activity quantities (re-use of program income) including future years.

A summary of each activity and funding need follows:

(1) Acquisition . 400 homes @ \$40,000 average = \$16,000,000

The City will acquire approximately 400 abandoned or foreclosed upon homes during the first three years of NSP2. Approximately 300 homes will be determined as feasible for rehabilitation. The remainder (approximately 100) will be acquired for demolition and land-banking. NSP2 guidelines require that any acquisition be at a discount off the current market appraised value.

The City will acquire properties either via bulk purchase (through continued participation in the National Community Stabilization Trust's "First Look" process) or via other direct negotiations with property-owners.

(2) Rehabilitation . 300 homes @ \$100,000 average = \$30,000,000

The City will designate approximately 300 of the above acquired homes as feasible for rehabilitation within the above-stated budget constraints within the first three years of NSP2. Rehabilitation activity will be carried out primarily by Community Development Corporations and other non- and for-profit development partners in the community. The City will determine a sensible financial structure to minimize the risk and capital requirements of our development partners in order to expedite this activity.

Rehabilitation activities will comply with all NSP and City requirements including the Interim Saint Paul PED/HRA Sustainability Initiative.

(3) Demolition . 100 homes @ \$15,000 average = \$1,500,000

The City will designate approximately 100 of the above acquired homes as blighted and will remove these destabilizing influences via demolition.

(4) Land-Banking Activities . \$600,000 for land-bank operations and for holding costs

The 100 vacant parcels that are cleared by NSP2 demolition activity will be held in land-bank status for future re-use. The City will partner with the Twin Cities Community Land Bank to carry out this activity. NSP2 funds will be used to fund the establishment of the land-bank entity and will be used to cover the ongoing carrying costs and maintenance of land-banked property.

(5) Financial Incentives . for 300 buyers @ \$15,000 average

The City will establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties, including such mechanisms as soft-seconds, contracts-for-deed, and shared-equity loans for low- and moderate-income homebuyers. These products will be available for buyers of either NSP2 funded properties or other additional eligible foreclosed or abandoned properties.

In addition to the activities summarized above, the City will also use NSP2 funds for administrative costs.

It is anticipated that approximately 120 rehabilitated homes will be sold during the first three years of NSP2 at an average sales price of \$100,000, resulting in program income of \$12,000,000. This is reflected in the summary budget below:

Summary budget statement

(1) Acquisition	\$16,000,000	400 homes
(2) Rehabilitation	\$30,000,000	300 homes
(3) Demolition	\$ 1,500,000	100 homes
(4) Land-Banking Activities	\$ 600,000	100 parcels
(5) Financial Incentives	\$ 4,500,000	300 buyers
subtotal	\$52,600,000	
Administration 10%	\$ 5,260,000	
Total 3 year project cost	\$57,860,000	
Less 3 year project income	(\$12,000,000)	
TOTAL REQUEST	\$45,860,000	

NSP2 activities, including acquisitions, rehabilitation and demolition will continue beyond the initial three-year period. Sales of rehabilitated homes and developable lots will continue to generate program income which will be recycled to fund ongoing future NSP2 activities.

IV. Focused Areas of Concentrated NSP2 Activity

Within the larger Saint Paul NSP2 target geography, activity will be concentrated within approximately ten small concentrated opportunity areas. Within each area, NSP2 will fund approximately 40 acquisitions, 30 for rehabilitation and 10 for demolition and longer term land-banking. These areas of concentrated activity will be defined as two- or three- or four-square block sizes. This concentrated activity will be market-changing in these areas and the specific properties addressed in each area will more easily reinforce

and build upon each other and will provide for a more concise, focused marketing approach.

These areas will be defined through a comprehensive analysis which will consider at least the following factors:

- (1) results of ISP-funded community outreach research
- (2) concentrated acquisition opportunities
- (3) existing neighborhood amenities
- (4) patterns of recent reinvestment
- (5) concentration of foreclosures and vacant buildings

V. Other NSP2 Considerations

- (1) Affordability targeting All NSP2 funds must provide benefit to persons whose income does not exceed 120% of area median income. Also, 25% of each grant must be used for the purchase and redevelopment of abandoned or foreclosed upon homes or residential properties that will be used to house individuals or families whose incomes do not exceed 50% of area median income.
- (2) Timeline NSP2 funds must be expended at a rate of 50% within the first two years of the program and 100% within three years. The applications are due to HUD by July 17, 2009. HUD will make funding selections by December 1, 2009. Funding could be under contract by around January 1, 2010.
- (3) City authorization process –

Public comment period 6/17/09 – 6/29/09 Public comment hearing 6/25/09 City Council action 7/8/09